

Company Flash Note

I Vietnam

March 27, 2017 - 10:43 AM

HOLD (no change)

Consensus ratings*:	Buy 6	Hold 1	Sell 0
Current price:	VND15,650		
Target price:	VND16,390		
Previous target:	VND16,390		
Up/downside:	4.7%		
CIMB / Consensus:	-0.9%		
Reuters:	MBB.HM		
Bloomberg:	MBB VN		
Market cap:	US\$1,177m		
	VND26,804,396m		
Average daily turnover:	US\$0.42m		
	VND9,538m		
Current shares o/s	1,600m		
Free float:	38.8%		

*Source: Bloomberg

Key financial forecasts

	Dec-16F	Dec-17F	Dec-18F
Net Profit (VNDb)	2,892	3,386	4,297
Core EPS (VND)	1,457	1,730	2,259
Core EPS Growth	(3.8%)	18.7%	30.6%
FD Core P/E (x)	10.74	9.05	6.93
Recurring ROE	10.3%	11.0%	13.2%
P/BV (x)	1.05	0.95	0.87
DPS (VND)	0.0	500.0	1,000.0
Dividend Yield	0.00%	3.19%	6.39%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.6	18.6	7.9
Relative (%)	9.5	9.9	-18.6

Major shareholders	% held
Viettel & associates	19.6
SCIC	10.0
Vietnam Helicopter Services	8.0

Analyst(s)

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Military Bank

Aiming higher

- We have turned more bullish on MBB after hearing about the new CEO's more ambitious targets in a recent meeting with the bank's management
- MBB aims to implement Basel 2 by 2018, and the management targets to achieve at least a 15% ROE in the mid-term, instead of 13% as stated before.
- Management will present its 29% pre-tax profit growth target for FY17 at AGM

New CEO sets out higher targets

- At his first meeting with analysts in his capacity as CEO, Mr. Luu Trung Thai left a positive impression when he communicated MBB's growth plan for FY17-19, with a focus on 1) improving productivity as a key earnings driver, 2) ROE improvement, and 3) continuously strengthening operational safety (i.e. by implementing Basel 2).
- Mr. Thai (aged 42) is the third CEO of MBB since its inception. He is a career MBB banker. He assumed the CEO position in late-Dec 2016.

Aims to implement Basel 2 by 2018

- MBB management was adamant that it would stick to its plan for implementing Basel 2 by 2018, despite the central bank's recent regulation which suggests a delay in the application of Basel 2 until 2020.
- We are encouraged to hear that MBB aims to implement Basel 2 as planned. We believe that banks that adhere to Basel 2 standards (meaning that they are better-run) deserve higher valuations.

Greater focus on ROE improvement

- The new CEO guided that MBB's management aims to achieve at least a 15% ROE in the mid-term, or roughly within 2-3 years. The bank under the previous CEO had guided for a 13% ROE in the next 4-5 years.
- We understand the new CEO has taken into consideration the realities of Basel 2 implementation by 2018 and a three-year gestation period for new businesses (i.e. life insurance, consumer finance) before they are of a decent scale to make a meaningful impact on MBB's consolidated bottomline. Hence, a 15% ROE target is reasonable, in our view, and it actually shows a significant uptrend (vs. the current 12% ROE which is based only on akin-Basel-1 capital standards).

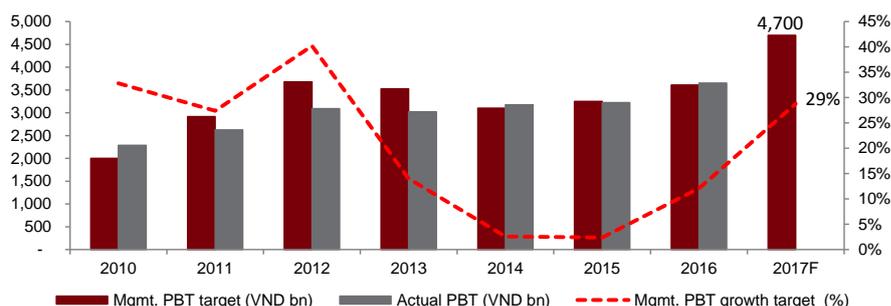
29% earnings growth target for FY17

- According to the new CEO, the management will present at MBB's Annual General Shareholders' Meeting (to be held on 26 Apr) a VND4,700bn/US\$207m pre-tax profit target, or up 29% yoy, for FY17.
- This is the most aggressive earnings growth target set by MBB management since FY13. The management has mostly hit its earnings targets during FY14-16. MBB will likely achieve its FY17 earnings target given steady loan growth, NIM recovery, and easing provisioning, in our view.

Maintain Hold for now but we revisit earnings models

- With management's new guidance, we will revisit our earnings models for FY17-20F. Management's more ambitious targets and its greater focus on ROE improvement while continuously strengthening operations (via implementing Basel 2) are all positives we like. In the meantime, we maintain our Hold rating and 12-month target price, which is based on 1x FY17 P/BV. Upside risks to our call include the bank's stronger earnings growth in FY17F; while slow NIM recovery is a key downside risk.

Figure 1: MBB's profit before tax (PBT): Management target vs. Actual



SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(VNDb)	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Net Interest Income	7,319	7,938	9,220	10,828
Total Non-Interest Income	1,453	1,497	1,595	1,757
Operating Revenue	8,772	9,435	10,814	12,585
Total Non-Interest Expenses	(3,449)	(3,931)	(4,479)	(5,079)
Pre-provision Operating Profit	5,323	5,504	6,336	7,506
Total Provision Charges	(2,102)	(1,869)	(2,082)	(2,114)
Operating Profit After Provisions	3,221	3,635	4,253	5,392
Pretax Income/(Loss) from Assoc.	0	0	0	0
Operating EBIT (incl Associates)	3,221	3,635	4,253	5,392
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	3,221	3,635	4,253	5,392
Exceptional Items	0	0	0	0
Pre-tax Profit	3,221	3,635	4,253	5,392
Taxation	(709)	(727)	(851)	(1,078)
Consolidation Adjustments & Others				
Exceptional Income - post-tax	0	0	0	0
Profit After Tax	2,512	2,908	3,403	4,314
Minority Interests	(16)	(16)	(16)	(16)
Pref. & Special Div	0	0	0	0
FX And Other Adj.	0	0	0	0
Net Profit	2,496	2,892	3,386	4,297
Recurring Net Profit	2,087	2,472	2,962	3,869

Balance Sheet

(VNDb)	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Gross Loans	150,008	178,660	214,772	254,496
Liquid Assets & Invst. (Current)	46,760	49,098	51,553	59,286
Other Int. Earning Assets	8,182	8,311	9,818	11,655
Total Gross Int. Earning Assets	204,950	236,070	276,143	325,437
Total Provisions/Loan Loss Reserve	(1,976)	(3,311)	(4,753)	(5,906)
Total Net Interest Earning Assets	202,973	232,759	271,390	319,531
Intangible Assets	1,201	1,360	1,632	1,851
Other Non-Interest Earning Assets	15,632	15,037	17,554	20,767
Total Non-Interest Earning Assets	16,833	16,396	19,186	22,619
Cash And Marketable Securities	1,236	2,152	3,790	4,240
Long-term Investments	0	0	0	0
Total Assets	221,042	251,307	294,366	346,390
Customer Interest-Bearing Liabilities	181,565	207,779	245,443	291,382
Bank Deposits	7,509	9,251	10,296	11,550
Interest Bearing Liabilities: Others	4,180	3,460	4,325	5,406
Total Interest-Bearing Liabilities	193,254	220,491	260,064	308,338
Bank's Liabilities Under Acceptances	0	0	0	0
Total Non-Interest Bearing Liabilities	4,605	5,269	6,224	7,390
Total Liabilities	197,859	225,760	266,288	315,728
Shareholders' Equity	22,593	25,547	28,077	30,662
Minority Interests	590	0	0	0
Total Equity	23,183	25,547	28,077	30,662

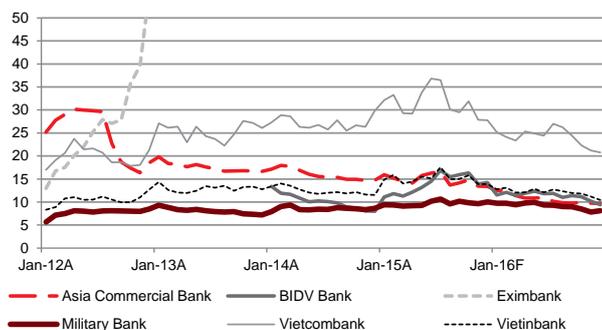
Balance Sheet Employment

	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Gross Loans/Cust Deposits	66.8%	70.1%	71.2%	72.0%
Avg Loans/Avg Deposits	63.6%	68.6%	70.7%	71.6%
Avg Liquid Assets/Avg Assets	39.0%	37.6%	36.2%	35.1%
Avg Liquid Assets/Avg IEAs	42.8%	40.2%	38.6%	37.4%
Net Cust Loans/Assets	54.0%	56.6%	57.7%	58.8%
Net Cust Loans/Broad Deposits	63.1%	65.6%	66.5%	67.3%
Equity & Provs/Gross Cust Loans	20.2%	19.8%	18.8%	17.4%
Asset Risk Weighting	80.6%	72.7%	73.6%	74.6%
Provision Charge/Avg Cust Loans	1.75%	1.25%	1.17%	0.97%
Provision Charge/Avg Assets	0.92%	0.71%	0.69%	0.58%
Total Write Offs/Average Assets	1.00%	0.79%	0.76%	0.66%

Key Ratios

	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Income Growth	5.6%	7.6%	14.6%	16.4%
Operating Profit Growth	2.5%	3.4%	15.1%	18.5%
Pretax Profit Growth	1.5%	12.9%	17.0%	26.8%
Net Interest To Total Income	83.4%	84.1%	85.3%	86.0%
Cost Of Funds	3.38%	4.80%	4.58%	4.45%
Return On Interest Earning Assets	7.05%	8.10%	7.90%	7.80%
Net Interest Spread	3.67%	3.30%	3.32%	3.35%
Net Interest Margin (Avg Deposits)	4.19%	4.08%	4.07%	4.03%
Net Interest Margin (Avg RWA)	4.21%	4.40%	4.62%	4.56%
Provisions to Pre Prov. Operating Profit	39.5%	34.0%	32.9%	28.2%
Interest Return On Average Assets	3.47%	3.36%	3.38%	3.38%
Effective Tax Rate	22.0%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	23.2%	NA	25.3%	39.9%
Return On Average Assets	1.18%	1.22%	1.24%	1.34%

12-mth Fwd FD P/E (x)



Key Drivers

	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Loan Growth (%)	20.7%	20.0%	20.0%	20.0%
Net Interest Margin (%)	3.8%	3.6%	3.6%	3.6%
Non Interest Income Growth (%)	-17.7%	3.0%	6.5%	10.2%
Cost-income Ratio (%)	39.3%	41.7%	41.4%	40.4%
Net NPL Ratio (%)	0.2%	0.9%	0.7%	0.6%
Loan Loss Reserve (%)	101.4%	98.9%	118.3%	140.8%
GP Ratio (%)	0.7%	0.8%	0.8%	0.8%
Tier 1 Ratio (%)	11.8%	13.0%	12.1%	11.0%
Total CAR (%)	12.9%	14.1%	13.0%	11.8%
Deposit Growth (%)	8.3%	14.4%	18.1%	18.7%
Loan-deposit Ratio (%)	65.7%	68.5%	69.3%	69.9%
Gross NPL Ratio (%)	1.6%	2.3%	2.3%	2.0%
Fee Income Growth (%)	-42.8%	20.0%	12.4%	18.0%

SOURCE: CIMB RESEARCH, COMPANY DATA

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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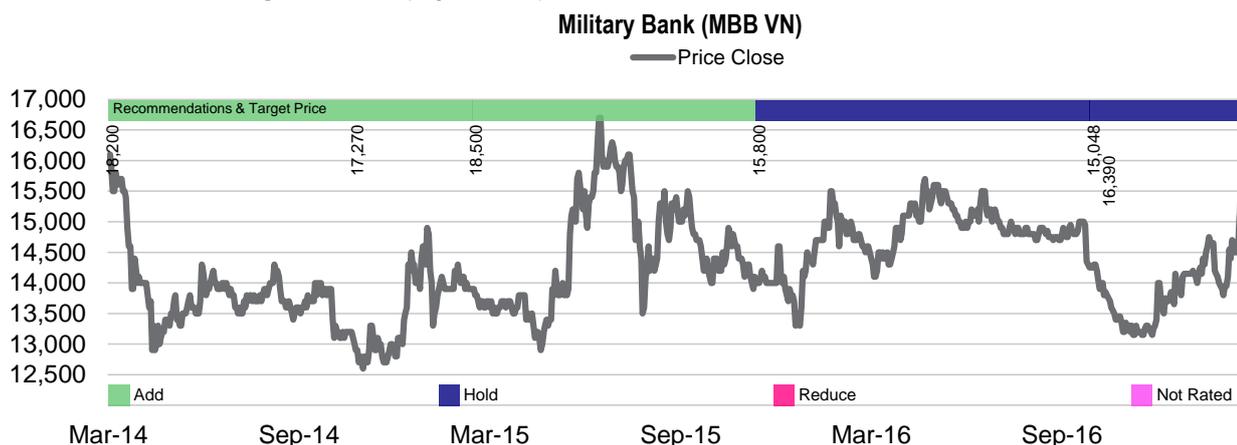
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016		
1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BCP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared,

HANA - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** - Very Good, Declared, **INTUCH** - Excellent, Certified, **ITD** - Good, n/a, **IVL** - Excellent, Certified, **JAS** - not available, Declared, **JASIF** - not available, n/a, **JUBILE** - Good, Declared, **KAMART** - not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** - Good, Certified, **KKP** - Excellent, Certified, **KSL** - Very Good, Declared, **KTB** - Excellent, Certified, **KTC** - Excellent, Certified, **LH** - Very Good, n/a, **LPN** - Excellent, Declared, **M** - Very Good, Declared, **MAJOR** - Good, n/a, **MAKRO** - Good, Declared, **MALEE** - Very Good, Declared, **MBKET** - Very Good, Certified, **MC** - Very Good, Declared, **MCOT** - Excellent, Declared, **MEGA** - Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** - Very Good, Declared, **NYT** - Excellent, n/a, **OISHI** - Very Good, n/a, **PLANB** - Very Good, Declared, **PSH** - not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** - Excellent, Declared, **RATCH** - Excellent, Certified, **ROBINS** - Very Good, Declared, **RS** - Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** - Excellent, Certified, **SAWAD** - Good, n/a, **SC** - Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** - not available, n/a, **SCC** - Excellent, Certified, **SCN** - Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** - Very Good, Declared, **STA** - Very Good, Declared, **STEC** - Excellent, n/a, **SVI** - Excellent, Certified, **TASCO** - Very Good, Declared, **TCAP** - Excellent, Certified, **THAI** - Very Good, Declared, **THANI** - Very Good, Certified, **THCOM** - Excellent, Certified, **THRE** - Very Good, Certified, **THREL** - Very Good, Certified, **TICON** - Very Good, Declared, **TISCO** - Excellent, Certified, **TK** - Very Good, n/a, **TKN** - Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TPCH** - Good, n/a, **TIPIP** - not available, n/a, **TRUE** - Very Good, Declared, **TTW** - Very Good, Declared, **TU** - Excellent, Declared, **UNIQ** - not available, Declared, **VGI** - Excellent, Declared, **WHA** - not available, Declared, **WHART** - not available, n/a, **WORK** - not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.